Financial Statements of

ISLANDS TRUST

Year ended March 31, 2012

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Financial Statements

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Financial Statements

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MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The accompanying financial statements of Islands Trust (the "Trust") are the responsibility of the Trust's management and have been prepared in compliance with legislation, and in accordance with Canadian public sector accounting standards for local governments as recommended by the Public Sector Accounting Board of The Canadian Institute of Chartered Accountants. A summary of the significant accounting policies are described in note 1 to the financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

The Trust's management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of the financial statements. These systems are monitored and evaluated by management.

The Trust, acting through its Audit Committee, meets with management and the external auditors to review the financial statements and discuss any significant financial reporting or internal control matters prior to their approval of the financial statements.

The financial statements have been audited by KPMG LLP, independent external auditors appointed by Trust Council. The accompanying Independent Auditors' Report outlines their responsibilities, the scope of their examination and their opinion on the Trust's financial statements.

Chief Administrative Officer

Treasurer

KPMG LLP
Chartered Accountants
St. Andrew's Square II
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Victoria BC V8W 3Y7
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INDEPENDENT AUDITORS' REPORT

To the Trustees of Islands Trust and the Minister of Community, Sport and Cultural Development

We have audited the accompanying financial statements of Islands Trust, which comprise the statement of financial position as at March 31, 2012, the statements of operations, change in net financial assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Islands Trust as at March 31, 2012, and its results of operations, its changes in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Accountants

June 14, 2012
Victoria, Canada

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KPMG Canada provides services to KPMG LLP.

ISLANDS TRUST

Statement of Financial Position

March 31, 2012, with comparative information for 2011

	2012	2011
Financial assets:		
Cash and cash equivalents (note 3)	$ 3,494,644	$ 3,409,216
Accounts receivable	105,458	104,658
	3,600,102	3,513,874
Financial liabilities:		
Wages and benefits payable	943,105	1,046,483
Accounts payable and accrued liabilities	337,145	297,003
Deferred revenue	87,997	155,518
Employee benefit obligations (note 4)	116,576	121,633
Obligations under capital leases (note 5)	50,714	44,589
Cost recovery deposits (note 12(ii))	29,902	34,007
	1,565,439	1,699,233
Net financial assets	2,034,663	1,814,641
Non-financial assets:		
Tangible capital assets (notes 6)	135,158	158,813
Prepaid expenses	30,835	14,879
	165,993	173,692
Commitments (note 10)		
Contingent liabilities (note 11)		
Accumulated surplus (notes 2 and 7)	$ 2,200,656	$ 1,988,333

The accompanying notes are an integral part of these financial statements.

On behalf of the Trust Council:

Trustee

Trustee

ISLANDS TRUST

Statement of Operations

Year ended March 31, 2012, with comparative information for 2011

	Budget (unaudited - note 8)	2012	2011
Revenue:			
Property tax - general	$ 5,870,355	$ 5,870,356	$ 5,755,082
Property tax levy - Bowen Island Municipality	220,880	220,880	224,518
Provincial grant - operating	180,000	349,524	50,545
Fees and sales	110,000	125,403	127,613
Interest income	70,000	94,623	58,062
Other income	100,000	107,516	113,482
Total revenue	6,551,235	6,768,302	6,329,302
Expenses (note 9):			
Council services	1,195,675	1,167,154	949,994
Local trust committee services	4,995,619	4,744,401	4,558,047
Trust fund services	661,941	644,424	612,670
Total expenses	6,853,235	6,555,979	6,120,711
Annual surplus (deficit)	(302,000)	212,323	208,591
Accumulated surplus, beginning of year	1,988,333	1,988,333	
As previously reported	-	-	1,695,396
Restatement (note 2)	-	-	84,346
As restated	1,988,333	1,988,333	1,779,742
Accumulated surplus, end of year	$ 1,686,333	$ 2,200,656	$ 1,988,333

The accompanying notes are an integral part of these financial statements.

ISLANDS TRUST

Statement of Change in Net Financial Assets

Year ended March 31, 2012, with comparative information for 2011

	Budget (unaudited - note 8)	2012	2011
Annual surplus (deficit)	$ (302,000)	$ 212,323	$ 208,591
Acquisition of tangible capital assets	-	(31,234)	(56,304)
Amortization of tangible capital assets	55,000	54,889	64,790
	(247,000)	235,978	217,077
Acquisition of prepaid expenses	-	(15,956)	(13,922)
Change in net financial assets	(247,000)	220,022	203,155
Net financial assets, beginning of year	1,814,641	1,814,641	
As previously reported	-	-	1,527,140
Restatement (note 2)	-	-	84,346
As restated	1,814,641	1,814,641	1,611,486
Net financial assets, end of year	$ 1,567,641	$ 2,034,663	$ 1,814,641

The accompanying notes are an integral part of these financial statements.

ISLANDS TRUST

Statement of Cash Flows

Year ended March 31, 2012, with comparative information for 2011

	2012	2011
Cash provided by (used in):		
Operating activities:		
Annual surplus	$ 212,323	$ 208,591
Items not involving cash:		
Amortization of tangible capital assets	54,889	64,790
Change in non-cash operating assets and liabilities:		
Accounts receivable	(800)	(50,819)
Wages and benefits payable	(103,378)	39,053
Accounts payable and accrued liabilities	40,142	56,389
Deferred revenue	(67,521)	111,474
Employee benefit obligations	(5,057)	(11,472)
Cost recovery deposits	(4,105)	22,907
Prepaid expenses	(15,956)	(13,922)
Net change in cash from operating activities	110,537	426,991
Capital activities:		
Acquisition of tangible capital assets	(12,580)	(51,005)
Financing activities:		
Principal payments on obligations under capital leases	(12,529)	(12,473)
Increase in cash and cash equivalents	85,428	363,513
Cash and cash equivalents, beginning of year	3,409,216	3,045,703
Cash and cash equivalents, end of year	$ 3,494,644	$ 3,409,216
Supplemental cash flow information:		
Assets acquired under capital lease	$ 18,654	$ 5,299

The accompanying notes are an integral part of these financial statements.

Islands Trust (the "Trust") is incorporated under the Islands Trust Act of British Columbia (as amended). The objectives of the Trust are to preserve and protect the Trust area and its unique amenities and environment for the benefit of the residents of the Trust area and of the Province generally.

1. Significant accounting policies:

The financial statements of Islands Trust are prepared by management in accordance with Canadian public sector accounting principles for local governments as recommended by the Public Sector Accounting Board ("PSAB") of the Canadian Institute of Chartered Accountants. Significant accounting policies adopted by the Trust are as follows:

(a) Reporting entity:

The financial statements include a combination of all the assets, liabilities, revenues, expenses, and changes in fund balances and in financial position of the trust council and the local trust committees.

The Trust occasionally conducts work on behalf of development applicants on a cost-recovery basis. These trust activities are not included in the financial statements.

(i) Consolidated entities:

The Trust does not control any significant external entities and accordingly no entities have been consolidated with the financial statements.

(ii) Funds held in trust:

The Trust administers operations of The Islands Trust Fund. The annual expenses of The Islands Trust Fund are reported by the Trust in accordance with The Islands Trust Act (note 12).

(b) Basis of accounting:

The Trust follows the accrual method of accounting for revenues and expenses. Revenues are normally recognized in the year in which they are earned and measurable. Expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and/or the creation of a legal obligation to pay.

Government transfers are recognized in the financial statements as revenues in the period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amounts can be made.

Revenue unearned in the current period is recorded as deposits or deferred revenue.

1. Significant accounting policies (continued):

(c) Cash and cash equivalents:

Cash and cash equivalents include short-term highly liquid investments with a term to maturity of 90 days or less at acquisition. Investments in the Municipal Finance Authority of British Columbia ("MFA") Bond, Intermediate and Money Market Funds are recorded at cost plus earnings reinvested in the funds. Investment income is resported as revenue in the period earned.

(d) Employee future benefits:

The Trust and its employees make contributions to the Public Service Pension Plan, which provides benefits directly to employees upon retirement. These contributions are expensed as incurred.

A gratuity is also available to employees upon retirement. The cost of this benefit is born by the Public Service Pension Plan.

The costs of multi-employer defined contribution pension plan benefits, such as the Public Service Pension Plan, are the emplopyer's contribution due to the plan in the period. These contributions arre expensed as incurred.

(e) Non-financial assets:

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

(i) Tangible capital assets:

Tangible capital assets are recorded at cost which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets, excluding land, are amortized on a straight line basis over their estimated useful lives as follows:

Asset	Useful life - years
Furniture and equipment	5
Computers	3
Leasehold improvements	over the remaining term of the lease

1. Significant accounting policies (continued):

(e) Non-financial assets (continued):

(i) Tangible capital assets (continued):

Amortization is charged annually, including in the year of acquisition and disposal. Assets under construction are not amortized until the asset is available for productive use.

Tangible capital assets are written down when conditions indicate that they no longer contribute to the Trust's ability to provide goods and services, or when the value of future economic benefits associated with the asset are less than the book value of the asset.

(ii) Contributions of tangible capital assets:

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt and also are recorded as revenue.

(iii) Works of art and historical treasures:

Works of art and historical treasures are not recorded as assets in these financial statements.

(iv) Interest capitalization:

The Trust does not capitalize interest costs associated with the acquisition or construction of a tangible capital asset.

(v) Leased tangible capital assets:

Leases which transfer substantially all of the benefits and risks incidental to ownership of property are accounted for as leased tangible capital assets. All other leases are accounted for as operating leases and the related payments are charged to expenses as incurred.

1. Significant accounting policies (continued):

(f) Use of estimates:

The preparation of financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Significant estimates include assumptions used in estimating provisions for accrued liabilities and estimating historical cost and useful lives of tangible capital assets. Actual results could differ from these estimates.

2. Restatement:

The employee benefit obligations have been revised to correct for an immaterial error as certain benefits accrued by the Trust were determined not to be a liability of the Trust. This change has been recorded retroactively and accordingly, the comparative financial statements have been restated resulting in a decrease of $84,346 to employee benefit obligations and a corresponding increase in accumulated surplus as at April 1, 2010. The adjustment has no impact on the annual surplus, change in net debt or cash flows in 2011.

3. Cash and cash equivalents:

	2012	2011
Bank account balances	$ 778,875	$ 760,409
Municipal Finance Authority Bond Fund	2,654,705	1,690,695
Municipal Finance Authority Intermediate Fund	58,132	855,029
Municipal Finance Authority Money Market Fund	2,932	103,083
	$ 3,494,644	$ 3,409,216

4. Employee benefit obligations:

The Trust provides sick leave and certain other benefits to its employees and are recorded as follows:

	2012	2011
Vacation pay	$ 93,166	$ 96,115
Compensatory time off	23,410	25,518
	$ 116,576	$ 121,633

4. Employee benefit obligations (continued):

Vacation pay and compensatory time off represent the liability for accumulated banks for draw down at future dates and/or for payout either on an approved retirement, or upon termination or death.

Other pension plans

The Trust and its employees makes contributions to the Public Service Pension Plan (the "Plan"), a jointly trusteed pension plan. The Board of Trustees, representing plan members and employers, is responsible for overseeing the management of the Plan, including investment of the assets and administration of benefits. The pension plan is a multi-employer contributory pension plan. Basic pension benefits provided are defined. The Plan has about 51,000 active members and approximately 30,000 retired members.

Every three years an actuarial valuation is performed to assess the financial position of the Plan and adequacy of Plan funding. The most recent valuation as at March 31, 2008 indicated an unfunded liability of $487,000,000 for basic pension benefits. The next valuation will be as at March 31, 2011, with results available in 2012. The actuary does not attribute portions of the unfunded liability to individual employers. Employee and employer contributions to the plan were increased by 0.15% of salaries effective April 1, 2009 in accordance with the plan actuary's recommendations. Contributions to the plan by the Trust totaled $245,590 (2011 - $241,889) during the year.

5. Obligations under capital leases:

The amounts due for obligations under capital leases are as follows:

		2012
2013	$	17,296
2014		15,000
2015		14,288
2016		5,706
2017 and thereafter		4,429
Total minimum lease payments		56,719
Less amounts representing interest (at rates ranging from 2.25% to 6.25%)		6,005
Present value of net minimum capital lease payments	$	50,714

Interest of $1,617 (2011 - $1,669) relating to capital lease obligations has been included in expenses on the statement of operations.

6. Tangible capital assets:

	Denman Island Site	Furniture and equipment	Computers	Leasehold improvements	Total 2012	Total 2011
Cost:						
Balance, beginning of year	$ 10,000	$ 100,618	$ 103,041	$ 231,687	$ 445,346	$ 389,042
Additions	-	18,654	-	12,581	31,235	56,304
Balance, end of year	10,000	119,272	103,041	244,268	476,581	445,346
Accumulated amortization:						
Balance, beginning of year	10,000	48,911	63,797	163,826	286,534	221,743
Amortization expense	-	18,063	16,859	19,967	54,889	64,790
Balance, end of year	10,000	66,974	80,656	183,793	341,423	286,533
Net book value, end of year	$ -	$ 52,298	$ 22,385	$ 60,475	$ 135,158	$ 158,813

Contributed tangible capital assets:

Contributed capital assets have been recognized at fair market value at the date of contribution. There were no contributed assets received during 2012 or 2011.

In fiscal 1994, the Denman Island Ratepayers' Association donated $10,000 which was used by the Trust to purchase the Denman Island Old School Site from School District #71. The Trust agreed to facilitate the sale of the school site between School District #71 and the Ratepayers' Association and to hold title to the property on behalf of the community. The Denman Island Ratepayers' Association has leased the building on the site from the Trust for 99 years for a total fee of $10.

7. Accumulated surplus:

Accumulated surplus consists of:

	2012	2011
Invested in tangible capital assets	$ 84,444	$ 114,224
General Revenue Fund	2,116,212	1,874,109
	$ 2,200,656	$ 1,988,333

8. Budget data:

The unaudited budget data presented in these financial statements is based upon the 2012 operating budget approved by Trust Council on March 9, 2011. The following reconciles the approved budget to the budget figures reported in these financial statements.

	Budget amount
Operating budget:	
Revenue	$ 6,853,235
Less appropriation from surplus	(302,000)
	6,551,235
Expenses	6,853,235
Annual deficit	$ (302,000)

9. Classification of expenses by object:

	2012	2011
Staff salaries and benefits	$ 3,692,973	$ 3,653,619
Traveling/training and recruitment	186,067	186,975
Council and trustee costs	662,698	597,521
Office operations	941,571	900,987
Programs	585,427	460,042
Legal	309,612	255,189
Elections	122,742	1,588
Amortization	54,889	64,790
Total expenses by object	$ 6,555,979	$ 6,120,711

10. Commitments:

(i) Minimum annual lease payments:

The Trust is committed to leases for rented premises. Minimum future payments in the next five years are as follows:

2013	$ 89,649
2014	88,868
2015	84,864
2016	27,372
2017	480

(ii) Contracts:

At March 31, 2012, the following major contracts were incomplete:

	Total contract value	Amount remaining
Gulf Islands Film and Television School	$ 20,000	$ 20,000
ME Kelly Consulting	22,688	13,943
Murdoch de Greef Inc.	43,569	43,569
C. Ferris TFB Covenant Monitoring	20,868	20,868
Other	41,940	13,013

Other contracts include five contracts with values ranging between $6,720 and $10,000.

Of the amount remaining listed above, all will be funded from deferred revenues. All contracts are due for completion within one year of March 31, 2012.

11. Contingent liabilities:

In the normal course of operations, claims for alleged damages are made against the Trust. Costs, if any, are recorded when a liability is likely and reasonably determinable.

12. Trust activities:

(i) Trust Fund under administration

The Trust administers The Islands Trust Fund (the "Fund") which is related through the composition of the Fund's Board. The Fund is empowered to accept donations, grants and bequests on behalf of the Trust and to hold land and other property in compliance with a plan approved by the Ministry of Community, Sport and Cultural Development. The Fund's Board is comprised of three members from Trust Council and up to three members appointed by the Minister of Community, Sport and Cultural Development.

For financial reporting purposes, the Trust and the Fund are reported on separately. These financial statements present the financial position and results of operations of the Trust.

The Fund's annual expenses are funded by and reported as part of the Trust in accordance with The Islands Trust Act. These expenses are summarized as follows:

	2012	2011
Programs	$ 482,248	$ 464,117
Board	19,562	15,638
Administration	142,614	132,915
	$ 644,424	$ 612,670

(ii) Third party trust funds:

The Trust administers trust activities on behalf of development applicants on a cost-recovery basis. The activities are as follows:

	2012	2011
Cash received during the year	$ 12,743	$ 52,759
Cash paid during the year	16,848	29,852

The net payable from development applicants of $29,902 (2011 - $34,007) is reported as a liability on the statement of financial position.